GOOD FORM: THE WEEKLY CASH-FLOW PLANNER

Inc.®

THE MAGAZINE FOR GROWING COMPANIES

HOW TO SUCCEED WITHOUT A JOB

INC.'S GUIDE TO CREATING YOUR OWN WORKPLACE IN THE '90S

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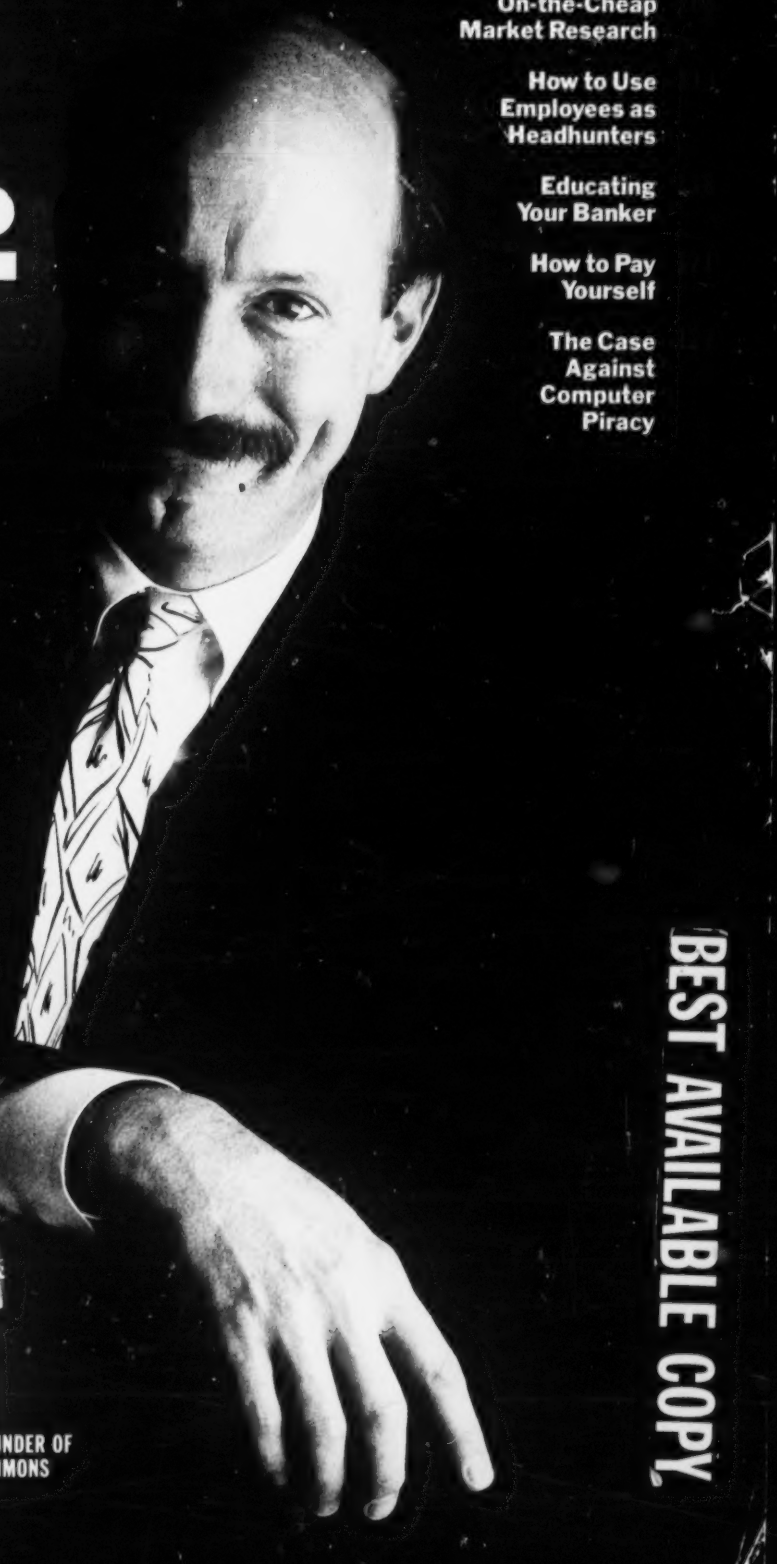

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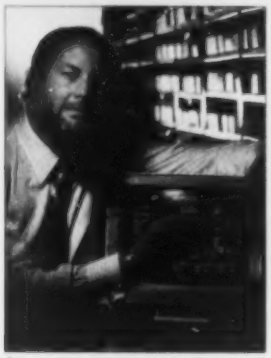

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FYI

Notes from George Gendron, Editor-in-Chief

■ ■ ■ ■ ■ ■ ■ ■ ■

How do you shut down one of the most powerful engines of the economy? Stop lending it the money it needs to grow. That's exactly what's been happening here in the United States, according to a survey conducted recently on behalf of the American Electronics Association (AEA). The study focused on 100 banks that had been among the most active lenders to high-technology companies several years ago. Here's how those once-active banks described their recent *high-tech lending activities:*

Not lending to high-tech companies at all anymore 66

Not currently seeking high-tech business 18

Still lending to high tech, but with tighter terms 8

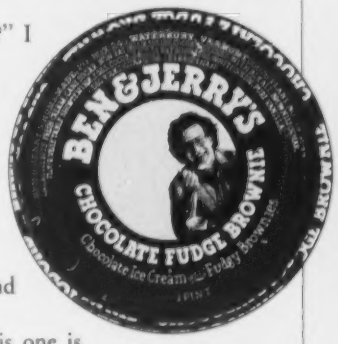
Still lending to high tech on the same terms as before . . . 8

To see whether other commercial lenders might be stepping in to pick up the slack, the AEA conducted another survey of 848 major banks throughout the United States—and found only 6 that had the expertise to lend to high-technology companies and an interest in doing so.

Now if we can just figure out some way to blame this *on the Japanese.*

THE CHANGING OF THE GUARD First, Paul Hawken called to tell me he'd resigned as chairman and CEO of Smith & Hawken, the garden-tool company he cofounded 12 years ago. "It's been a wonderful odyssey," he said, "but I feel it's time to get back to some of the things I set out to do in the first place." He was referring to the book he's writing, developing the themes in "The Ecology of Commerce," which we published in our April issue. I'm happy that Paul will be writing more and delighted to announce that his work will appear frequently in *Inc.* Still, I have to confess I was saddened by the news of his departure from Smith & Hawken. Back when names like Boesky and Trump dominated the business news, I felt reassured knowing Paul was out there in California, building a company with the simple conviction that there had to be a better way to conduct business. Paul's example, imperfections and all, never failed to inspire me.

The next day I called Paul's old friend Ben Cohen at Ben & Jerry's Homemade, the socially active ice-cream company based in Waterbury, Vt. I suppose I was looking for someone to commiserate with. "Oh, he's not here," said the woman who answered the phone.



"Would you ask him to call me when he gets back?" I asked.

"I'll be glad to," she said, "but I hope it can wait till next fall."

"Next fall?"

"Yeah. He's on a leave of absence."

A few days later I got a call from Ben's alter ego, Jerry Greenfield.

"I'm sure he'll use the time off well," I said to Jerry. "Hey, this is the guy who launched 1% for Peace and Rainforest Crunch on his last leave."

"That's true," said Jerry, "but I have the feeling this one is going to be different."

"How so?"

"Well, Ben's bought a studio in Burlington."

"Maybe he wants a place to do some thinking," I suggested.

"I don't think that's it," Jerry replied.

"Why not?"

"Because he also bought an acetylene torch."

"An acetylene torch?"

"Yeah. He says he wants to get into metal sculpture. In fact, he's waiting for me right now. We're heading out to look for a used pickup truck, so Ben can run around and collect scrap metal."

Paul Hawken and Ben Cohen aren't the only ones looking for greener pastures. If recent conversations with CEOs around the country are any guide, half the entrepreneurial population is either on sabbatical these days or preparing to take one—or thinking about getting out of business altogether. Some people chalk it up to the stress of managing in a recession. Others see demographic factors at work, as a lot of founders hit the age at which we start to question what we're doing with our lives. There is no doubt some truth in both explanations. But as I talk to people, I hear something else: a disenchantment with the limits of business. And that makes me wonder whether we all haven't come to expect too much of business and the meaning it can provide in our lives.

▶

PHOTOGRAPH: MARK ALCAREZ

RESULTS FROM MARCH

The Inc. FaxPoll™

ENOUGH ALREADY!

Most of you seem to agree with Henry David Thoreau: "That government is best which governs least."

90%

YES

IS *UNNECESSARY* GOVERNMENT INTERFERENCE HURTING YOUR BUSINESS?

No

10%

Well, this *was* a loaded question. "At least you weren't pretending to be objective," one reader chided. No, we weren't. But the opportunity to check the "no" box was there. And only one in 10 of you did, so it looks as though we touched a nerve. Not only did this poll garner the best overall response of any we've done, but respondents were in far greater agreement on this particular question than on any we've ever asked. That was true regardless of the type of company you run or whether your business is local, national, or international. Your answers to the poll and your impassioned comments scribbled in the margins left little doubt that this is a heated issue.

The message is clear. There's too much regulation and "the added costs to meet regulations are killing profits and incentives." Nearly all of you acknowledged the necessity of at least *some* regulation, but most believe "those regulations that make no sense should be pulled." Compliance takes time and resources, which are in limited supply. Even if you want to comply, "far too much time, effort, and energy are spent trying to figure out the right thing to do." And that, to many of you, seems unfair and just plain dumb. "Having the most productive members of society keep books for the government according to its ridiculously complex rules and regulations is a criminal waste of resources."

You came down hard on the regulators. Not only don't they understand business, but "they don't care" and "they won't listen." They can't possibly understand you, because they "have never signed the *front* of a paycheck." Regulators won't help you solve the problem; "they only tell you that it exists." And collect the money. Many people groused about inconsistency in enforcement. "My competitors aren't complying and can therefore provide their services at a lower cost." You see a lot of overlap, with "too many agencies duplicating efforts." And even if you want to comply, you must contend with a "lack of knowledge about the regulations and conflicting opinions of the regulators." And in many cases "national standards don't take regional variations into account. We have to test for problems we don't have." But at least one of you admitted that regulators may have their hands tied. "Regulators need the power, and the incentive, to modify standards in particular circumstances where they make no sense."

What can be done? Do any of the candidates have a clue? George Bush got the most votes, but there's quite a bit of political unrest out there. One-third of you did not choose Bush, Buchanan, Clinton, or Brown, the only four major candidates that remain at this writing. One person said he'd vote for either Pat Buchanan *or* Jerry Brown, possibly an indication of just how desperate some of you are for change. Only 42% want either Bush or Clinton, the likely nominees, in the White House. The Libertarian candidate, Andre Marrou, got 5% of the vote—exceeded by only Bush, Buchanan, and Tsongas—entirely with write-ins. Some of you want as president anyone "who has met a payroll and made a profit for 10 years." That should be music to H. Ross Perot's ears.

The only candidate to have both a reasonably large and reasonably confident following is Pat Buchanan. If you created a "perceived-effectiveness index" by multiplying the percentage of votes a candidate got by the percentage of the candidate's supporters who feel he can do anything about regulation, you would get the following ranking: Buchanan, Bush, Marrou, Tsongas, Clinton, Brown.

—Christopher Caggiano

HOW MUCH EXISTING REGULATION WOULD YOU SAY IS UNNECESSARY?

Most of it	83%
Little or none of it	10%
All of it	7%

IN WHAT AREAS HAVE YOU HAD THE MOST SIGNIFICANT PROBLEMS WITH LAWS AND REGULATIONS?*

Permits/licensing	49%
Federal taxes	44%
State taxes	38%
The environment	33%
Workers' benefits	32%
Inspections/standards	27%
Hiring practices	25%
Land zoning and real estate	20%
Other	15%
Export/import restrictions	9%

WHAT'S THE MAIN PROBLEM HERE?*

Regulators don't understand business	37%
Too much regulation	33%
Regulations don't make sense	25%
All of the above	16%

IF THE ELECTION WERE HELD TODAY, FOR WHOM WOULD YOU VOTE?

Bush	37%
Buchanan	20%
Tsongas	11%
Undecided	6%
Clinton	5%
Marrou	5%
Brown	4%
Kerrey	1%
Duke	1%
Harkin	1%

WOULD THAT CANDIDATE BE ABLE TO IMPROVE THE REGULATORY SITUATION?

	Yes	No
Bush	27%	73%
Buchanan	64%	36%
Tsongas	43%	57%
Clinton	37%	63%
Marrou	97%	3%
Brown	37%	63%
Kerrey	67%	33%
Duke	100%	0%
Harkin	50%	50%

* Note: Multiple responses account for total percentages above 100%

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Hands On

SALES & MARKETING

Iacobbo and Cabral sound off over the airwaves.

ADVERTISING

Ads with Attitude

ANNOYING RADIO VOICE: Have you ever been hurt? Did you ever think you were hurt? Have you ever dreamed about being hurt? If so, call us, and we'll sue someone for you.

Hi, I'm Dennis Iacobbo—and I'm Ali Cabral—and we're the owners of Job Link. . . . It's attitudes like those that have Rhode Island businesses going belly-up. . . .

BURNED BY A WRONGFUL WORKERS' COMPENSATION SUIT AND angered by sue-happy lawyers' advertisements, Ali Cabral and Dennis Iacobbo decided to get even in a radio ad of their own. Scripted like a public-service announcement, their radio spot was unlike any previous ad run by Job Link, a $5-million temporary-placement and employee-leasing company in Providence. Job Link's phone number wasn't even mentioned. Yet the ad, first aired last fall, prompted a steady stream of calls from business owners, talk-show listeners, and politicians. One company owner even pitched in $75 to keep the ad running.

Encouraged by the response, Cabral and Iacobbo took to the airwaves to sound off about other work issues. Each ad costs about $250 a week to produce and run five times a day on eight area radio stations. Business has picked up 30% over the past six months, Cabral notes. And the ads have boosted Job Link's name recognition. "We still get at least a call a day, and everywhere we go, people say, 'Great ads!' " —*S. G.*

PRICING

Pricing Your Service for Profits

A YEAR AFTER FOUNDING THE Delahaye Group, a $1-million Hampton Falls, N.H., company that tracks public relations' effectiveness, Katharine Paine was in the black. But when she analyzed its profitability, she discovered *half* her projects lost money or barely broke even. Without an accurate reading of her costs, Paine was misquoting projects. To price profitably, she now considers:

• **How much time are we spending?** Paine asked her 15 employees to keep detailed time sheets. The time sheets would tell her whether the company was spending more time on nonbillable tasks than anticipated.

• **What are my future costs?** Clients would put in requests for quotes on projects six months or more in advance. During that time employees might get a raise, rendering the price quote unprofitable. So the company had to improve its budget forecasting.

• **What's my billing rate?** There are different ways to bill customers profitably. Bob Peabody, a Newport, R.I., consultant who helped Paine rework her pricing structure, advised her to look at comparable industry statistics for sales and the cost of direct labor (labor that produces sales) to compute a markup factor—the amount she needs to charge to cover costs and make a desirable profit. Paine now uses the markup factor, derived by dividing the cost of direct labor into sales, to compute her billing rate. If on average $40,000 worth of direct-labor costs produces $100,000 in sales, for example, the markup factor would be 2.5. Paine can then multiply projected billable hours by 2.5 to arrive at a price for a project.

"The moment you make a mistake in pricing, you're eating into your reputation or your profits," Paine says. —*S. G.*

To analyze time spent on projects, Katharine Paine uses Timeslips time-billing software ($299.95 for DOS or Macintosh; 800-338-5314; in Massachusetts, 508-768-6100). Consult Gale Research's *Encyclopedia of Associations* at your library for trade associations that collect sales, labor, and overhead statistics.

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Edited by Susan Greco

PHOTOGRAPH: JOHN SOARES

TRAINING

Getting New Recruits on Track

SUPPOSE YOUR COMPANY IS small enough that an official orientation program for new hires seems too expensive, yet large enough that fresh employees can get lost. Try an approach like the one used by Infincom, a Phoenix-area office-equipment distributor. Mike Koether, Infincom's president, assigns every new employee the same task: seek out and have a one-to-one discussion with each of the top managers in the company within the first five days on the job.

The recruits get a firsthand account of what will be expected of them and each manager's role in the company. The managers can assess the skills and resources being brought into the company. Most important, everyone gets to make the kind of personal connection that begets a strong sense of responsibility.

"We think the first 90 days of the employment relationship is the most critical time and establishes the entire foundation for the future," explains Koether. By taking great pains to see that new employees understand the company and their role in it, Koether keeps turnover and firing low.

The orientation assignment also serves as an early-warning system for wayward employees. If someone doesn't have the initiative to carry it out, says Koether, "we know that recruit is going to have a problem." The employee's manager maps out a 90-day action plan to help the employee understand what it will take to succeed. —*E. E. S.*

WORK FORCE

Affordable Wellness Programs

THE OUNCE-OF-PREVENTION approach to containing health-insurance costs has always seemed like a luxury only well-heeled companies could afford. High-tech exercise rooms, running tracks, and locker rooms are almost nonexistent among small companies. Yet it's those companies that stand to gain the most from promoting healthful habits.

"One big medical claim can just destroy the premium structure of a small company," says Bill Kizer, founder of Wellness Councils of America (WELCOA), an Omaha organizer of regional health-promotion councils.

The bitter irony is that a wellness program doesn't have to be costly. Gene Bedient, owner of Bedient Pipe Organ, in Lincoln, Nebr., created his own. He'd always believed in regular exercise and good eating habits. But not all of his 12 employees did. "In any group of people you'll have a certain percentage that just don't take care of themselves," he says.

Drawing on his own thoughts, Bedient wrote a booklet on staying well for his employees. Under three broad categories of physical, mental, and financial health, he covered nutrition, drinking, exercise, sleep, stress, family problems, retirement savings, and money management, as well as other topics.

He concluded the treatise with an incentive program: he pays employees for every healthful task they execute each month. For example, if you exercised three times a week during the month, that's worth $7. If you did not smoke, you collect $3. A real angel in this program could collect more than $300 a year. Furthermore, workers who have perfect attendance throughout the year receive an extra $300.

Bedient is currently paying out two-thirds of what he'd pay if all employees were model health citizens. Total cost to date: $2,300.

Bedient's employees have been eager participants, in part because the company has also joined a community wellness council (see "Creating a Wellness Program," below) that provides assessment and educational services for only $50 a year.

The payoff will be hard to assess until two or three years have passed. Large companies, which have more experience with wellness programs, report powerful results. In 1989 the Scoular Grain Co., in Omaha, for example, saved $1,500 per employee in total health-care costs as a result of a program.

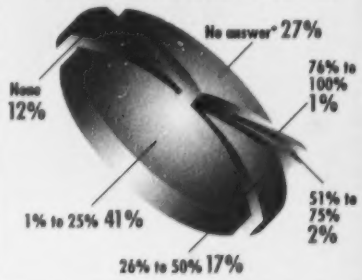
But Bedient isn't impatient about reaping such benefits. "In the long range, it will pay off. If your approach is simply that it's going to save you a lot of money, employees will sense that and be skeptical," he warns. For $2 you can get a copy of Bedient's booklet on staying well, complete with his wellness incentive plan. Call 402-470-3675, or fax to 402-470-3676. —*E. E. S.*

BENCHMARK

Health-Care-Cost Headaches

Health-insurance premiums for small companies increased by an average of 23% during the past year, according to National Small Business United. Most increases ranged from 1% to 25%, but 17% of the surveyed companies reported increases between 26% and 50%. No wonder health-insurance costs and availability were cited as the most important problems the small companies faced.

Percentage Increase in Health Premiums



*NSBU believes respondents who didn't answer do not provide health insurance for their employees.

Source: 1991 National Small Business United Member Survey, Washington, D.C.

RESOURCE

CREATING A WELLNESS PROGRAM

To get started on your own health-promotion program (see "Affordable Wellness Programs," above), contact WELCOA (402-444-1711), an Omaha nonprofit organization of wellness councils. Ask for the cost-benefit brochure ($1), which will help you figure out if a wellness program is worth your while. *Well Now* ($10) is a manager's guide to health promotion. If you decide to go ahead with a program, *Healthy, Wealthy, and Wise* ($25) is jam-packed with information. It includes formulas for analyzing your company's health-care costs, questionnaires for determining your greatest health needs, and a detailed audit of what your program will cost.

You may also want to find out if you're located near one of WELCOA's 30 wellness councils. Membership costs of roughly $2.50 per employee per year will buy you participation in a host of training activities. —*E. E. S.*

CHART: ROSS CULBERT LAVERY & RUSSMANN INC., NEW YORK

THE AMERICAN DREAM

BUSINESS FOR SALE—VINTAGE NEW ENGLAND DINER

THE BUSINESS A well-established 50-year-old, 2,000-square-foot diner in a historic community (population 38,000) on Boston's North Shore. Diner seats 50 (13 at the counter, 37 in booths); serves breakfast, lunch, and dinner Monday through Friday, 5:30 a.m. to 7:45 p.m.; and is open half-days on weekends. Jukeboxes in booths generate 0.1% of revenues. An often-photographed landmark, the diner has been owned and operated by the same family for 46 years—and is on the market because the family has run out of members who want to operate it.

FINANCIAL SUMMARY

	1990	1991	1992*
Gross revenues	$294,000	$266,000	$300,000
Recast earnings before interest, taxes, depreciation, and owner compensation	$14,000	$33,000	$39,000

*projected

PRICE $175,000

OUTLOOK Diners are hot. According to restaurant-industry types, the chic and pretentious 1980s have given way to the casual, value-conscious 1990s. Add the backlash against techno-foods (fake fats, fake sugars, fake meal portions), and it would appear diners are in position A. This diner boasts a strong repeat clientele, including one customer who's been coming daily for the past 50 years. The diner's cost of goods sold, currently running at 43% of revenues, needs to come down; the industry average is 30%. But its net margins, before owner compensation, top the norm.

PRICE RATIONALE The seller values the business at $130,000 and the diner itself at $45,000, numbers experts deem fair. Though valuation formulas for diners—essentially antiques with sentimental value—vary, aficionados suggest five times earnings is appropriate for this one. The question is, what are earnings here? Seller would be happy to stay on in his current role as short-order cook, but paying him could cut the heart out of profits.

PROS A Sterling Streamliner, this is the Porsche of the breed. Plus there's opportunity to grow the business by serving Real Food to Real People deeper into the dinner hours—when margins are higher on favorites like the gravy-slathered hot-turkey sandwich or the fried-seafood plate.

CONS This may be the equivalent of buying a job. Short-order cooking can be fun, but are you ready to do it every day?

—Alessandra Bianchi

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to the Boston Restaurant Group, 508-887-9895.

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